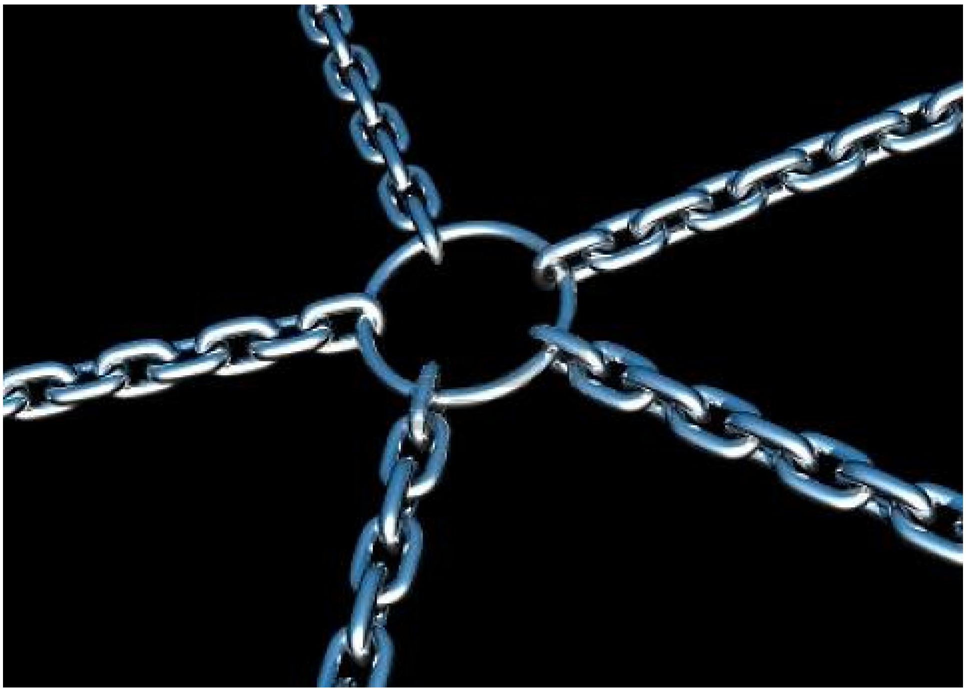

Entrepreneurship, Trading, Markup and Cash Flow

In the Umsebenzi Online of 30 June 2010, the SACP General Secretary, Dr Blade Nzimande, wrote that we must **"Fight Tenderpreneurs to defend entrepreneurship!!"**

The GS wrote: *"Entrepreneurs, found in co-operatives, small and medium sized businesses, are all those who genuinely and honestly go about doing business, including tendering for government work."*

The **attached** short article by Professor Michael Morris, published in 1996 in the Business Day, describes entrepreneurship and also debunks a number of misconceptions about it.

Morris wrote, among other things, that: *"The entrepreneurial individual recognises a trend, a possibility, an unmet demand.*

He or she comes up with a concept for capitalising on the trend or demand and does so while the window of opportunity is open."

Morris also says: *"Entrepreneurial individuals are opportunity-driven, not resource-driven."*

Business is driven by the customer. It is not true, as Jean-Baptiste Say used to believe, that supply creates its own demand. The entrepreneur's job is, first, to identify demand, where demand means people wanting goods or services, who are ready and willing to pay for them promptly, and at a price that will ensure a profit to the entrepreneur. Second, after having discovered demand, the entrepreneur seeks to connect demand to supply, by one means or another.

Trading

Co-ops in South Africa tend to be set up with the expectation of producing first, to sell later; whereas being an entrepreneur means securing the demand before making (or buying) the supply. The entrepreneur is a trader. As Dr Blade pointed out, co-ops, too, have to be entrepreneurial. They are compelled to trade in the marketplace.

The market is crucial, but contrary to what the bourgeois ideologues keep on saying, the market is not free, or open. It is we, the opponents of monopoly capitalism, who are the true "free-marketeers". Small businesses, including co-ops, to survive, must have access to markets that are not dominated by

predatory monopolistic market-manipulators. And if they are selling to the state, they must be paid on time and in full. These conditions barely exist in South Africa, which has historically been monopolistic in the extreme, and whose government is a notoriously slow payer.

Markup

When a producer of goods or services goes out to sell, the price asked is determined in normal circumstances by calculating the cost of the product, and then adding a "markup" that is a percentage of the cost. In most businesses, markup is typically around fifty per cent of cost, but it could as well be 100%, or 25%. Only in very high-volume trading, such as in some lines, in some supermarkets, will markup be significantly lower than 25%.

The concept of markup is not the same as the concept of profit. In the first place, markup is calculated as a percentage of cost, whereas profit is calculated as a percentage of price. So the raw, or "gross profit" equivalent of a 50% markup is 33%, for example.

But "gross profit" is also not actual profit. The real profit of a business will be calculated after the trading is finished, and it will be less by, among other things, the cost of any goods that cannot be sold for lack of demand, or for any other reason. "Overheads" (i.e. rent, communication and other general expenses of the business) must also be deducted.

Cash Flow

What is most important to the survival of a business is "cash flow". So long as cash is coming in, a business can keep going, but when the cash stops coming in, it must collapse very quickly. In this sense, a business can do without profit. It can make losses for an indefinite amount of time, until the day when there is no more cash.

Conversely, a business can collapse even if it is profitable, if there is no cash to keep it going. This can happen if payment is delayed, for example. To avoid such a thing happening, businesses have to look ahead and plan, using a "Cash Flow Forecast". What is called in popular terms a "business plan" is actually a cash-flow forecast.

Banks and other lenders are hardly concerned about whether a borrower will make profits, or not, but they do want to know if the principal loan can be paid back, with interest. They want to see how the cash will flow. They want to be sure that on the due dates, the business will have money to pay. This is what they look for in a business plan (Cash Flow Forecast).

Illustration: "Entrepreneur" means one who "holds together", as the ring in the picture holds together the chains. Most especially, the business entrepreneur holds together demand and supply.

- **The above is to introduce an original reading-text: Dismissing myths of entrepreneurship, Morris, 1996.**

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